



Fuel Taxes Newsletter

State
Board of
Equalization

BOARD MEMBERS

Carole Migden
First District
San Francisco

Bill Leonard
Second District
Ontario

Claude Parrish
Third District
Long Beach

John Chiang
Fourth District
Los Angeles

Steve Westly
State Controller
Sacramento

INTERIM
EXECUTIVE DIRECTOR
Timothy W. Boyer

December 2003

Volume VIII
Number 2

Issued semiannually
by the California State
Board of Equalization

Copies available at
www.boe.ca.gov

In This Issue . . .

Article Number

All Fuel Tax and Fee Programs

New legislation	1
Online newsletter index	2
Electronic funds transfers	3

International Fuel Tax Agreement and Interstate Diesel Fuel License

Rate adjustment for interstate users of diesel fuel.....	4
IFTA credential renewals	5

Underground Storage Tank Maintenance Fee

Operators of underground storage tanks can help ensure that owners are properly registered	6
--	---

Motor Vehicle Fuel Tax and Diesel Fuel Tax Programs

Both tax programs	
Filing tips	7
Progress in e-filing	8

Diesel fuel prepayments

Diesel fuel prepayment exemption applies only to sales tax	9
--	---

Motor vehicle program only

Phaseout of MTBE	10
------------------------	----

■ All Fuel Tax and Fee Programs

1. New legislation takes effect

The following summaries reflect legislative changes enacted during the 2003 legislative session affecting the fuel tax programs administered by the Board of Equalization. The changes are effective January 1, 2004, unless otherwise indicated. For copies of bills, please write to the Legislative Bill Room, State Capitol, Room B-32, Sacramento, CA 95814. Or you can download information from www.leginfo.ca.gov/bilinfo.html.

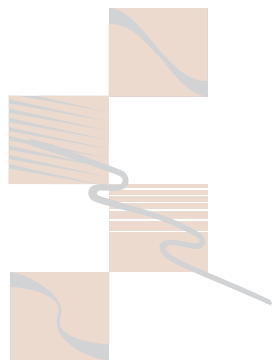
Water rights fee. Senate Bill 1049 (Stats. 2003, ch. 741) establishes an annual fee on water rights. The State Water Resources Control Board will establish the amount of the fee and the due date of the fee by regulation. The Board of Equalization is required to collect the new fee, which will be used to fund the Water Rights Division of the State Water Resources Control Board.

Multiprogram

Domestic partner rights. Assembly Bill 205 (Stats. 2003, ch.421) enacts the California Domestic Partner Rights and Responsibility Act of 2003. For purposes of California law, domestic partners will have a great many new rights and responsibilities, including laws governing community property, those governing property transfer, those regarding duties of mutual financial support and mutual responsibilities for certain debts to third parties, and many others.

Motor Vehicle Fuel and Diesel Fuel

Extended claim for refund/exclusion of racing fuel. Senate Bill 1060 (Stats. 2003, ch.605) authorizes a taxpayer to file a claim for refund within three years from the date the fuel was purchased, or within six months from the date the taxpayer received the invoice for the tax, whichever period occurs later. This bill also specifically excludes racing fuel from the definition of motor vehicle fuel.



December 2003
Fuel Taxes Newsletter

Motor Vehicle Fuel Only

Evidence other than original purchase invoices for State Controller refunds.

Assembly Bill 1741 (Stats. 2003, ch. 697), among other things, amends the Motor Vehicle Fuel Tax Law. Currently, the law provides for certain refunds upon submission of original purchase invoices to the State Controller. This bill allows the submission of other evidence of each purchase that is satisfactory to the State Controller and requires the claimant to maintain that evidence for four years after the issuance of a refund.

Diesel Fuel Only

Original invoice facsimile can support a diesel fuel tax claim for refund. Assembly Bill 1744 (Stats. 2003, ch. 316) authorizes a timely filed claim for refund of the diesel fuel tax to be supported by an original invoice facsimile retained in an alternative storage media.

2. Find it fast—try our new online index to past Fuel Taxes Newsletters

The index lists all the articles that have appeared in the *Fuel Taxes Newsletter* since its inception in June 1996. Articles are categorized by tax/fee program if applicable. If an article applies to more than one program, it is listed in alphabetical order by keyword. Links are provided to articles from the last three years of the Fuel Taxes Newsletter. Go to <http://www.boe.ca.gov/sptaxprog/spfuelnews.htm>.

3. Electronic funds transfers

FEDWIRE submissions must be preapproved

There are only two appropriate methods for making Electronic Funds Transfer (EFT) payments: Automated Clearing House (ACH) debit and ACH credit. Only in an emergency situation may a FEDWIRE be authorized. You must call the Fuel Taxes Division at 916-322-9669 to obtain prior approval for this method of payment.

A FEDWIRE payment made without prior approval will result in a longer delay in crediting your account because all the necessary information to apply your payment is not provided. For more information, please see publication 89-T, *Special Taxes Department Electronic Funds Transfer (EFT) Program Information Guide*. It is available on our website at <http://www.boe.ca.gov/pdf/pub89t.pdf>.

Need more information?
Give us a call or go online. See the back page for telephone numbers and website addresses.

■ International Fuel Tax Agreement (IFTA) and Interstate User Diesel Fuel (DI) License

4. Rate adjustment for interstate users of diesel fuel

For calendar year 2004, California's interstate user tax will increase from 26.3 cents per gallon, to **27.8** cents per gallon. Most interstate users who travel on California highways pay the tax through the International Fuel Tax Agreement. Interstate users who travel only between California and Mexico (DI licensees) also pay the interstate user tax.

The 27.8 cents per gallon interstate user tax rate is a combination of two amounts:

- 18 cents per gallon, which is the same as the per gallon rate for diesel fuel tax, plus
- 9.8 cents per gallon, which is equal to 7.25 percent of the average retail price of motor vehicle fuel sold in California.

Credits and refunds

Credit for interstate user tax. Interstate users who report and pay the interstate user tax on their IFTA or DI Tax returns can claim a credit of the 27.8 cents per gallon interstate user tax for tax-paid diesel fuel that they purchased in California—whether or not the fuel is used in California.

Refund of diesel fuel tax for nontaxable use of diesel fuel. Interstate users may not claim a credit or refund on their IFTA or DI returns for diesel fuel used in a nontaxable manner. Instead, they must file with the Board a claim for refund of the diesel fuel tax portion of the interstate user tax (18 cents per gallon) for diesel fuel used for nontaxable purposes in California (such as off-highway use).

5. IFTA carriers: Renew your IFTA credentials to avoid penalty charges

Don't forget to apply for your 2004 IFTA credential. Your current credential will expire December 31, 2003 (unless your credential is revoked, canceled, or suspended before that date).

If you have already applied and paid for a renewal, that's great. If you have not, we recommend that you apply as soon as possible. As explained below, you are subject to a penalty charge if you enter California on or after January 1, 2004, without a proper IFTA credential or California Fuel Trip Permit.

Grace period for carriers who have applied and paid for their 2004 credential(s)

Carriers in good standing with their base jurisdiction (all returns filed, all amounts due are paid, and a timely renewal is filed and paid) have until February 29, 2004 to display their 2004 decals. Many IFTA jurisdictions, including California, step up enforcement of the IFTA beginning on March 1st of each year. So, don't wait too long to get your 2004 IFTA decals on your vehicles!

Penalty charge

You will be assessed a penalty if you enter California without a valid IFTA credential or California Fuel Trip Permit. The penalty can be calculated two different ways.

First, if the Board determines an amount of tax due, the tax plus the greater of 25% of the tax or \$500 will be imposed.

Second, if the Board does not determine the amount of tax that is due, the penalty is \$100; and thereafter, for second and subsequent violations, \$100 will be added to the amount of the penalty until a maximum penalty of \$500 is reached. For example, the minimum penalty for a second violation is \$200 and the minimum penalty for a third violation is at least \$300. The penalty is imposed in addition to the purchase price of a California Fuel Trip Permit (currently \$30 for a single vehicle for a consecutive four-day period).

■ Underground Storage Tank Maintenance Fee Law

6. Are you an operator and not the owner of an underground storage tank?

The underground storage tank maintenance fee is imposed on the owner of the tanks. We continue to have problems identifying and registering the owners of underground storage tanks who should be registered in the Underground Storage Tank Maintenance Fee (UST fee) program. Many underground storage tank operators do not own the tanks they operate. Such operators can help the owners by contacting them and letting them know that they must register with the Board and report and pay the UST fee due on the petroleum based products placed in the tanks.

Penalty and interest charges apply to unpaid fees; therefore, it is important that owners register as soon as possible.

■ Motor Vehicle Fuel Tax and Diesel Fuel Tax Programs

Both Programs

7. Filing tips

■ Report document numbers (invoice numbers, bills of lading, and so forth) as alphanumeric only

We ask that you report document numbers as alphanumeric entries only. Do not include added spaces, leading zeros, hyphens, dashes, or other types of characters. The Board must remove all non-alphanumeric entries so that all document numbers are recorded correctly in our system. Your cooperation will help ensure that our matching process works effectively and that we will not have to contact you to clarify reporting differences.

■ Don't truncate "gallons"

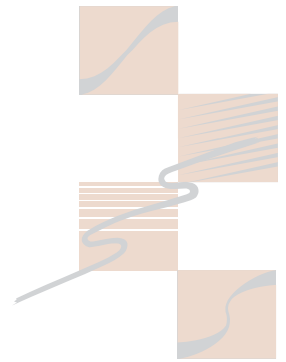
The law requires suppliers of motor vehicle fuel and diesel fuel to report and pay tax on the total gallons removed from the rack, entered, or sold. It has come to the Board's attention that while the supplier bills of lading include net fractional gallons, some suppliers have truncated the fraction when they bill their customers. (In those cases, customers are billed for less gallonage than actually received.)

If a supplier calculates its taxable gallons based on the partial gallons billed to purchasers instead of the total gallons removed, entered or sold, the method of calculating tax may result in a significant underreporting of gallons and an underpayment of tax.

To avoid underpayment of tax—and the assessment of penalty and interest charges—the Board recommends that the total gallons removed, entered or sold be used as the basis for calculating tax. As an alternative, the Board suggests that the calculation be based on the supplier bill of lading (not customer invoices) with partial gallons rounded to the nearest whole gallon, but not truncated.

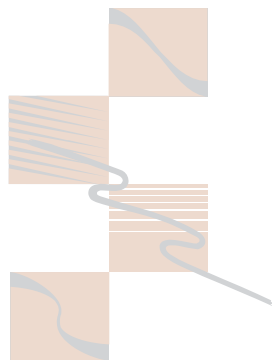
■ Go online if you need to find codes to complete your return

When you complete your tax return and reports (such as the BOE-501, -506 and -770 series), you are asked to provide certain codes, such as postal abbreviation codes, product codes, and schedule codes. These codes are not included in the instruction guide for your return (form BOE-810-FTE) nor in the return itself. You can go online to find this information, which is included in the BOE-810 series. Go to <http://www.boe.ca.gov/>



*December 2003
Fuel Taxes Newsletter*

**Need more information?
Give us a call or go online. See the back page for telephone numbers and website addresses.**



December 2003
Fuel Taxes Newsletter

sptaxprog/spftdmfuels.htm. Or you can call us for assistance at 916-322-9669.

8. Progress in e-filing

Why should I e-file?

E-filing eliminates the need for paper tax forms, which can be costly and use a lot of storage space. In addition, e-filing provides direct feedback that your tax form was received. No more worries about tax forms lost in the mail or billings for late penalty and interest due to postal processing. Also, e-filing is easy.

Download the Trading Partner Agreement (application) at <http://www.boe.ca.gov/electsrv/efiling/efilefueltaxguide.htm> and sign up today!

So, what are my filing choices?

You have many e-filing options. You can use the following formats:

EDI v. 4030, which has been in use since January 1, 2002;

EDI v. 4010, which is the same format used by Terminal Operators and Vessel/Pipeline Operators to file through ExSTARS with the IRS; or

Flat File, which can be made using a programming language, database, word processing, or spreadsheet application.

More information about these formats and examples are in the Motor Fuels E-Filing Manual available at our website at <http://www.boe.ca.gov/electsrv/efiling/efilefueltaxguide.htm>.

If you use the flat file format, you can create the files with the click of a button!

The Fuel Taxes Division has prepared example Excel workbooks that make it possible to create a file in the “flat file” format with the click of a button. The examples can be downloaded from <http://www.boe.ca.gov/electsrv/efiling/efilefueltaxguide.htm>.

For more information

Visit our website at <http://www.boe.ca.gov> and click on the “efile information” under Electronic Services. Or contact the Fuel Taxes Division at (916) 322-9669. Or e-mail us at efile@boe.ca.gov.

Diesel Fuel Prepayments

9. Diesel fuel prepayment exemption—it's only for the prepayment of sales tax

SB 1901 (Stats. 2002, Ch. 446, operative October 9, 2002) enacted Revenue and Taxation Code section 6480.3 in the Sales and Use Tax Law. It provides an

exemption, under specific conditions, from the *prepayment of sales tax* on certain sales of diesel fuel being purchased for resale to persons engaged in farming activities or food processing, as defined by Regulation 1533.2, *Diesel Fuel Used in Farming Activities of Food Processing*.

Proposed Sales and Use Tax Regulation 1598.1, *Diesel Fuel Prepayment Exemption*, interprets Revenue and Taxation Code section 6480.3. The regulation clarifies the criteria under which a seller may accept a diesel fuel prepayment exemption certificate and provides guidelines on the form of the certificate. You can go online to check on the status of this proposed regulation. Go to <http://www.boe.ca.gov/regs/regscont.htm>.

For further information, please call the Sales and Use Tax Department's Information Center at 800-400-7115.

Motor Vehicle Fuel Tax Program

10. Phaseout of MTBE deadline is December 31, 2003

With the deadline for the removal of MTBE from California gasoline rapidly approaching, please ensure you are using the appropriate product code for gasohol (gasoline blended with ethanol):

• Gasohol	5.7%	140
• Gasohol	7.7%	141
• Gasohol	10%	139
• Gasohol	(other blends)	124

Sidelights

Ethics at work—“thank you” is enough. Sometimes businesses offer gifts to their customers, suppliers, and others with whom they do business. We must ask, however, that you not extend your generosity to our employees. A simple “Thank You” will do—and is much appreciated. Board policy prevents our employees from accepting gifts of any type.

Trying times. Some observers have noted that civility is decreasing in our society as our lives become more complex. We know that you may find yourself frustrated with the difficulties of the tax law or pressed for time when you're dealing with our staff. Still, we ask that you treat our employees just as you would like to be treated in a business situation. Any statement made to a Board employee that seems remotely like a threat—even a statement made in jest—will be referred to our Internal Security and Audit Division for investigation.

Fuel Taxes Division

916-322-9669

Board of Equalization, MIC:30
P.O. Box 942879
Sacramento, CA 94279-0030

Internet

www.boe.ca.gov

Tax Evasion Hotline

888-334-3300

Legislation

www.leginfo.ca.gov

Taxpayers' Rights Advocate

888-324-2798
www.boe.ca.gov/tra/tra.htm